

DIRECTOR'S REPORT

APRIL 1984

CALIFORNIA
POSTSECONDARY
EDUCATION
COMMISSION



The Director's Reports of the California Postsecondary Education Commission are a monthly series of papers about issues affecting colleges and universities in California. Copies are sent to Commissioners and to college and university officials for their information, and are available from the Commission offices at 1020 Twelfth Street, Sacramento, California 95814; telephone (916) 445-7933.

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October-November 1983: Testimony to the Assembly Special Committee on the California Community Colleges, East Los Angeles, October 26, 1983, by Patrick M. Callan; A Prospectus for California Postsecondary Education, 1985-2000.

December 1983: The State's 1983-84 Budget and Public Postsecondary Education; 1982-83 State Legislation.

January-February 1984: The 1984-85 Governor's Budget.

March 1984: California Higher Education, 1973-1983: A Ten-Year Retrospective on Thirty Trends in California's Colleges and Universities.

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Overview of the 1984-85 Governor's Budget
for Postsecondary Education in California



CALIFORNIA POSTSECONDARY EDUCATION COMMISSION
1020 Twelfth Street, Sacramento, California 95814

NOTE: This overview of the Governor's Budget for 1984-85 was presented by Patrick M. Callan, Director of the Commission, to the Senate Finance Subcommittee No. 1 on Postsecondary Education, State Administration, and Fiscal Control on March 5, 1984, and to the Assembly Ways and Means Subcommittee No. 2 on Education on March 26, 1984.

Commission Report 84-13

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INTRODUCTION

This is the seventh year that I have presented a budget overview, but it is the first time that I have done so with any optimism. The 1984-85 Governor's Budget contains both substantive proposals and levels of support that show an intent to restore the priority of California higher education, particularly for the four-year institutions. The budget encourages belief that our colleges and universities will emerge from many years of financial stress and retrenchment to a brighter future of substantial fiscal and policy support and encouragement. I believe this to be the case, but I also believe that some caution is warranted. My purpose in urging caution in some areas is not to rain on the parade that the Governor has organized, but to point out that some clouds from prior years remain on the horizon and that it is risky to predict next year's weather.

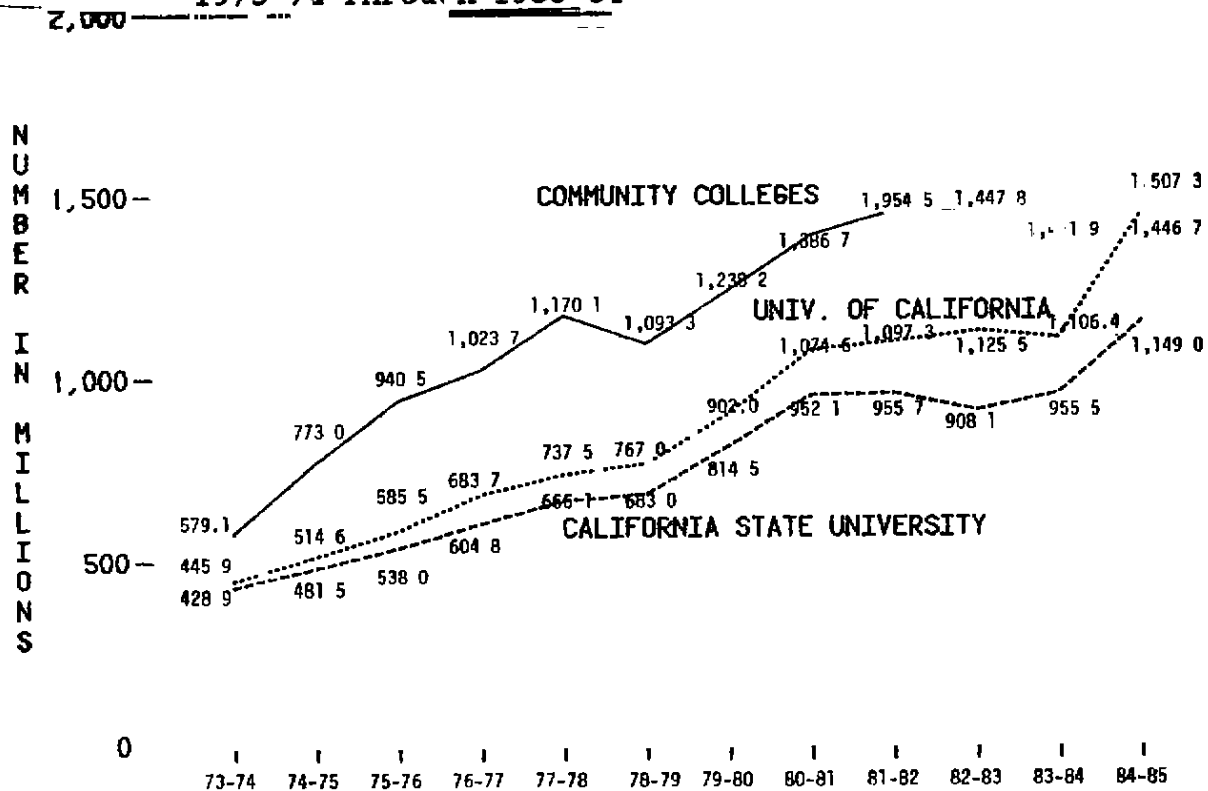
Before commenting on specific budget issues, I shall review the recent history of more limited funding, briefly describe the present state of postsecondary education, and then outline the major provisions of the 1984-85 budget. All of this is by way of introducing discussion of specific budget issues and their relationships to major State objectives for postsecondary education. A short conclusion will offer thoughts on budget equity and on realistic planning for an apparently more prosperous future.

First then, a look at the past. A single year's budget cannot resolve all the problems that have been building up over the past five years of fiscal stringency. What are the problems that the 1984-85 budget has been required to address?

- funding for all three segments declined 2 percent in real dollars (18 percent in constant dollars) between 1980-81 and 1983-84 (see Figure 1);
- postsecondary education's share of State General Fund and property tax revenues declined from 12.5 percent in 1980-81 to 11.1 percent in the 1983-84 Budget Act (see Figures 2 and 3);
- faculty salaries in the University and State University have not kept pace with those in comparable institutions nationally;
- State funding for the Student Aid Commission's grant programs dropped over 5 percent in real dollars between 1980-81 and 1983-84 (see Figure 4);
- student fees at the University and State University increased 79 percent and 216 percent, respectively, between 1980-81 and 1983-84 (see Figure 5); and
- backlogs of deferred maintenance (see Figure 6) and facilities repair and restoration have increased, and obsolete instructional equipment has not been replaced.

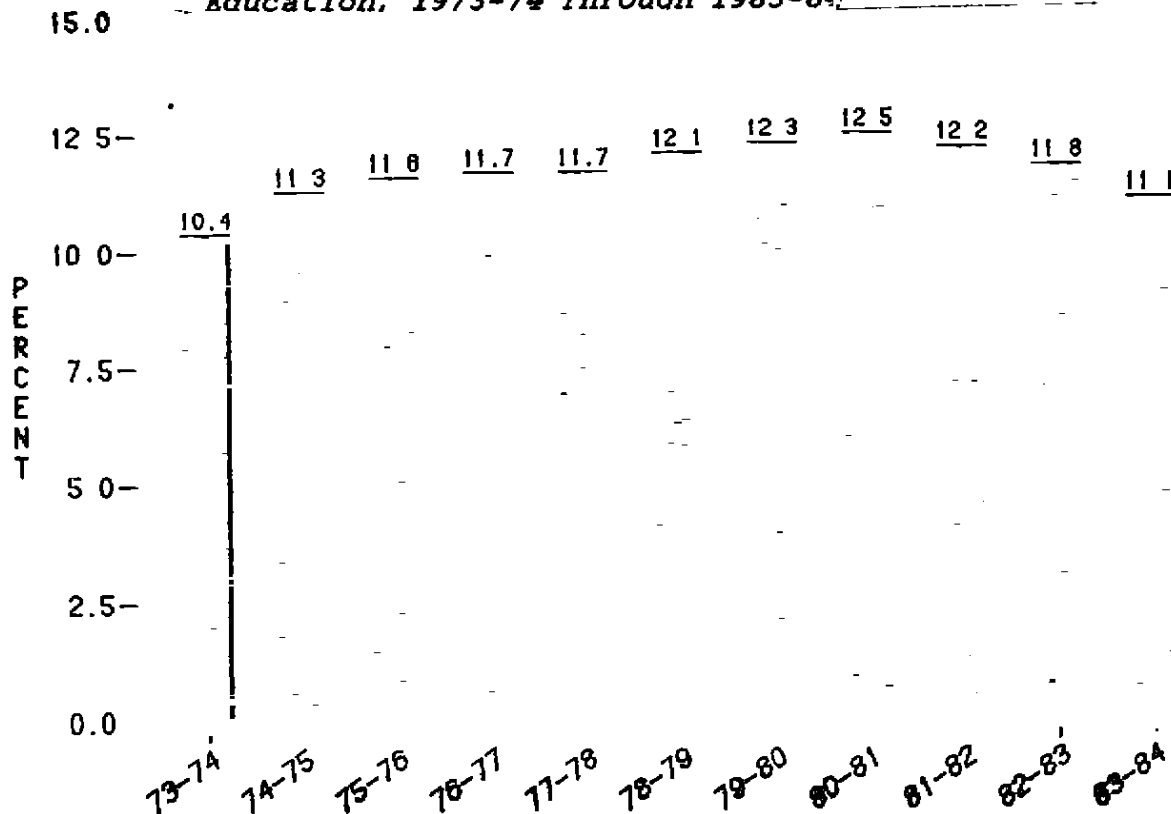
(text continues on page 5)

FIGURE 1 General Fund and Property Tax Expenditures for Community Colleges, and General Fund Expenditures for the California State University and University of California, 1973-74 Through 1983-84



Source: California Postsecondary Education Commission

FIGURE 2 Percent of State General Fund Expenditures and Property Tax Revenues Devoted to California Public Higher Education, 1973-74 Through 1983-84



Source: California Postsecondary Education Commission

FIGURE 5 Resident Undergraduate Required Fees at the California Community Colleges, the California State University, and the University of California, 1973-74 Through 1984-85, in Actual Dollars

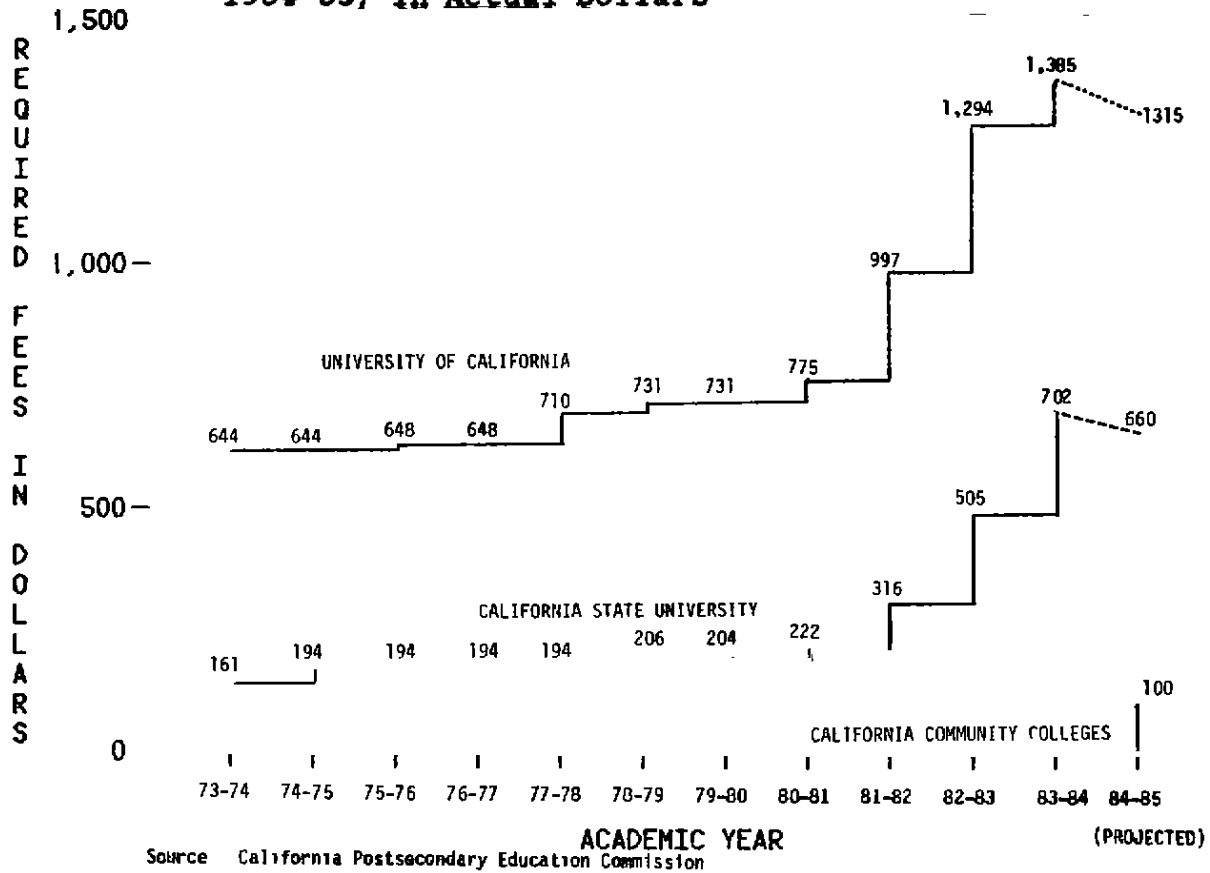
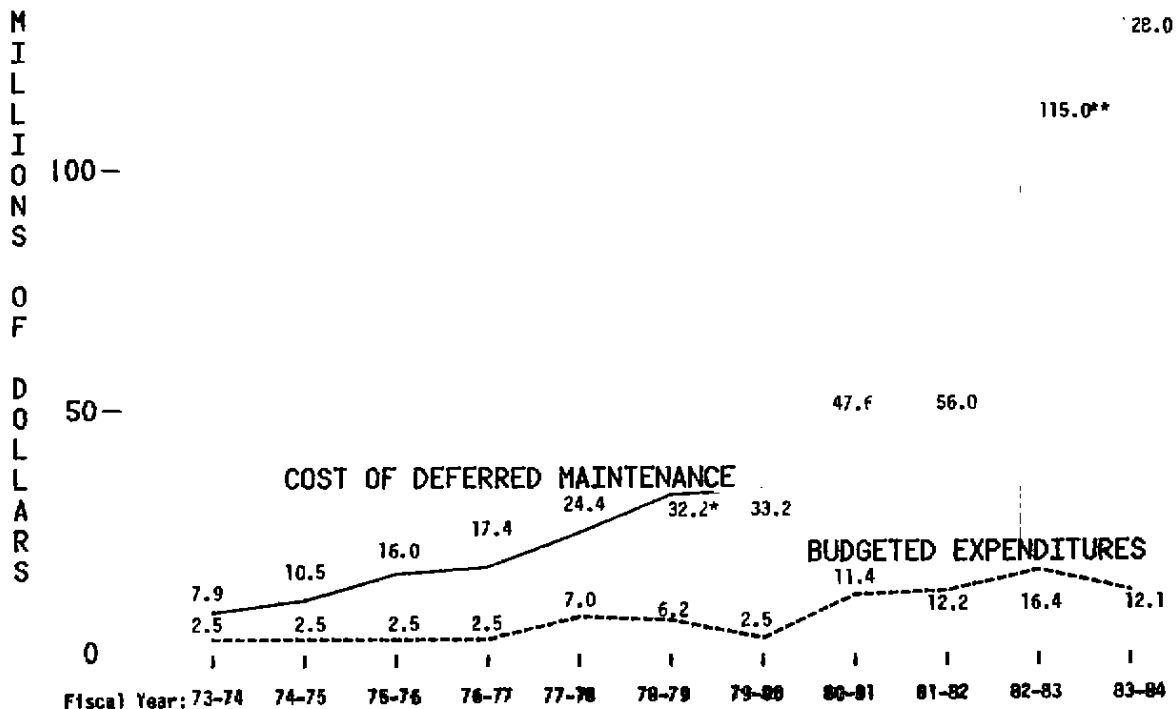


FIGURE 6 Estimated Costs of Deferred Maintenance Projects and Budgeted Expenditures for Them, 1973-74 Through 1983-84, in Millions of Dollars



Despite this dismal recent financial history, Californians continue to participate in postsecondary education in large numbers. In particular:

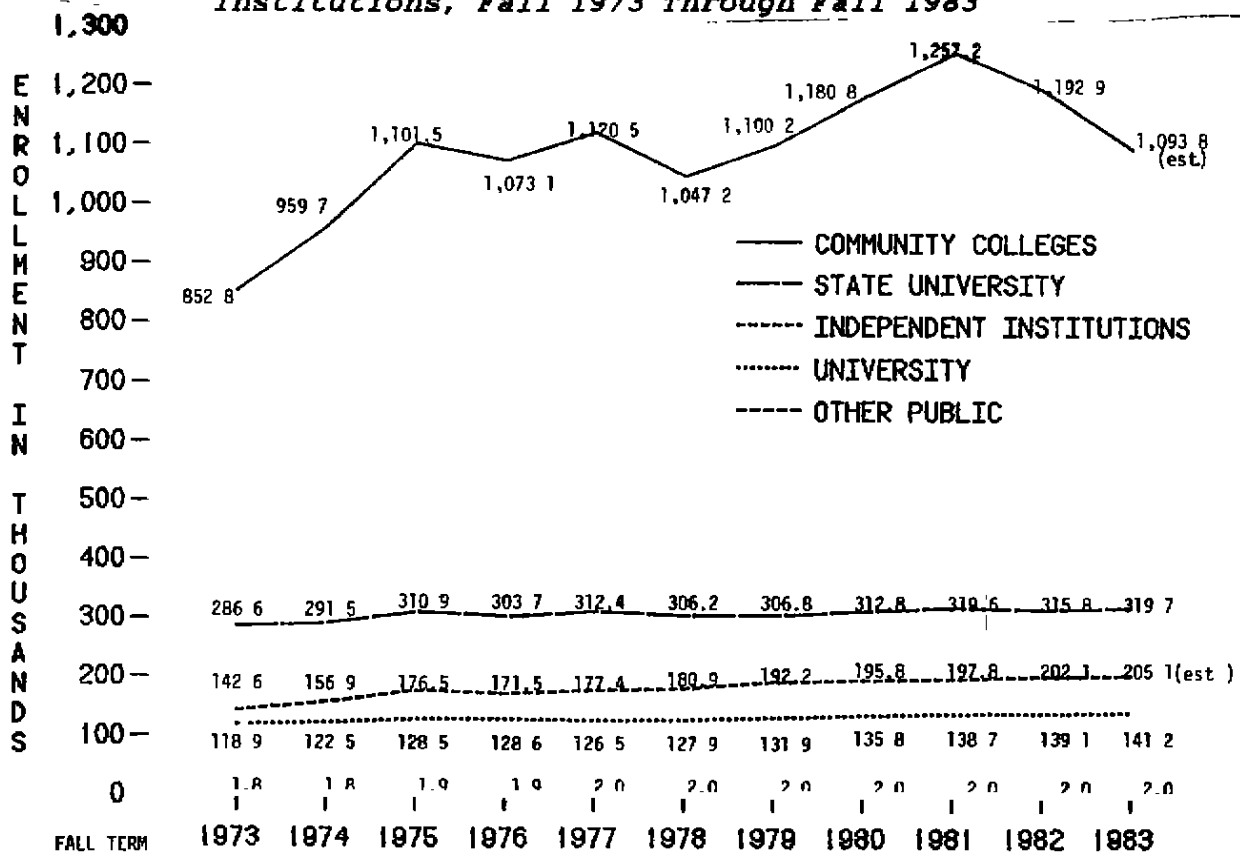
- Fall 1983 enrollment at the University of California was 141,289, up 1.5⁶ percent from 139,100 in Fall 1982; ✓
- California State University enrollment was 319,690 in Fall 1983, up 1.2 percent from the Fall 1982 level of 315,814; and
- Total enrollment at independent colleges this past fall increased 1.5 percent. Virtually all of the enrollment growth in these institutions was because of additional part-time students.
- Enrollments at the Community Colleges are down approximately 8 percent this fall. Uncertainty over funding and fee levels caused many districts to reduce course offerings in Fall 1983. In addition, the improving economy may have contributed to lower enrollments as students found newly available jobs (see Figure 7).
- College-going rates of recent high school graduates have remained steady over the last three years, as has the proportion of California adults enrolled in postsecondary education for credit (see Figures 8 and 9).
- Seven of the eight general campuses of the University have had to redirect freshman applicants, while 14 of the 19 campuses of the State University system have programs that are impacted. In addition, engineering programs at virtually every campus that offers them in both systems are turning away all applicants except those with the highest academic qualifications.

Furthermore, recent efforts by all of the postsecondary education segments to measure their impact on California show that higher education plays a critical role in the State's economic development:

- as economic units, the dollar impact of California's colleges and universities was almost \$30 billion in 1981-82; this amounted to nearly 8 percent of California's gross State product.
- the creation of new knowledge has not only offered a major attraction to industry but also created new industries in fields such as genetics, electronics, energy, resource management, and aeronautics.
- State tax revenues from the increased income of college and university alumni, combined with those generated by institutional operations, make California's colleges and universities more than self-supporting.

A final note about the current status of our colleges and universities: Figure 10 illustrates changing student academic interests over the last ten years. Radical shifts are found in a number of fields, but the most dramatic is that toward fields such as engineering, communications, and computer sciences. These shifts are the product of student demand, not State or institutional policy initiative. Campuses have accommodated them so far, but the funding needs -- for instructional equipment, particularly -- are multiplied by student response to emerging technology.

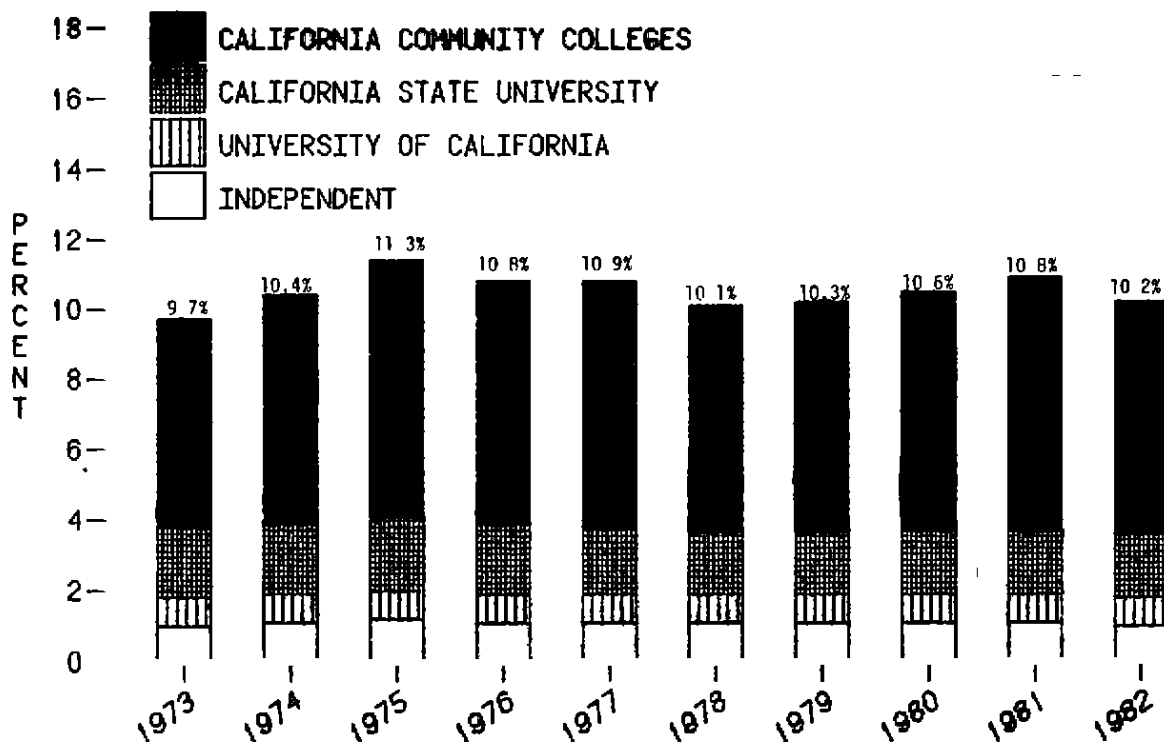
FIGURE 7 Credit Enrollment in California's Degree-Granting Institutions, Fall 1973 Through Fall 1983



Source: California Postsecondary Education Commission

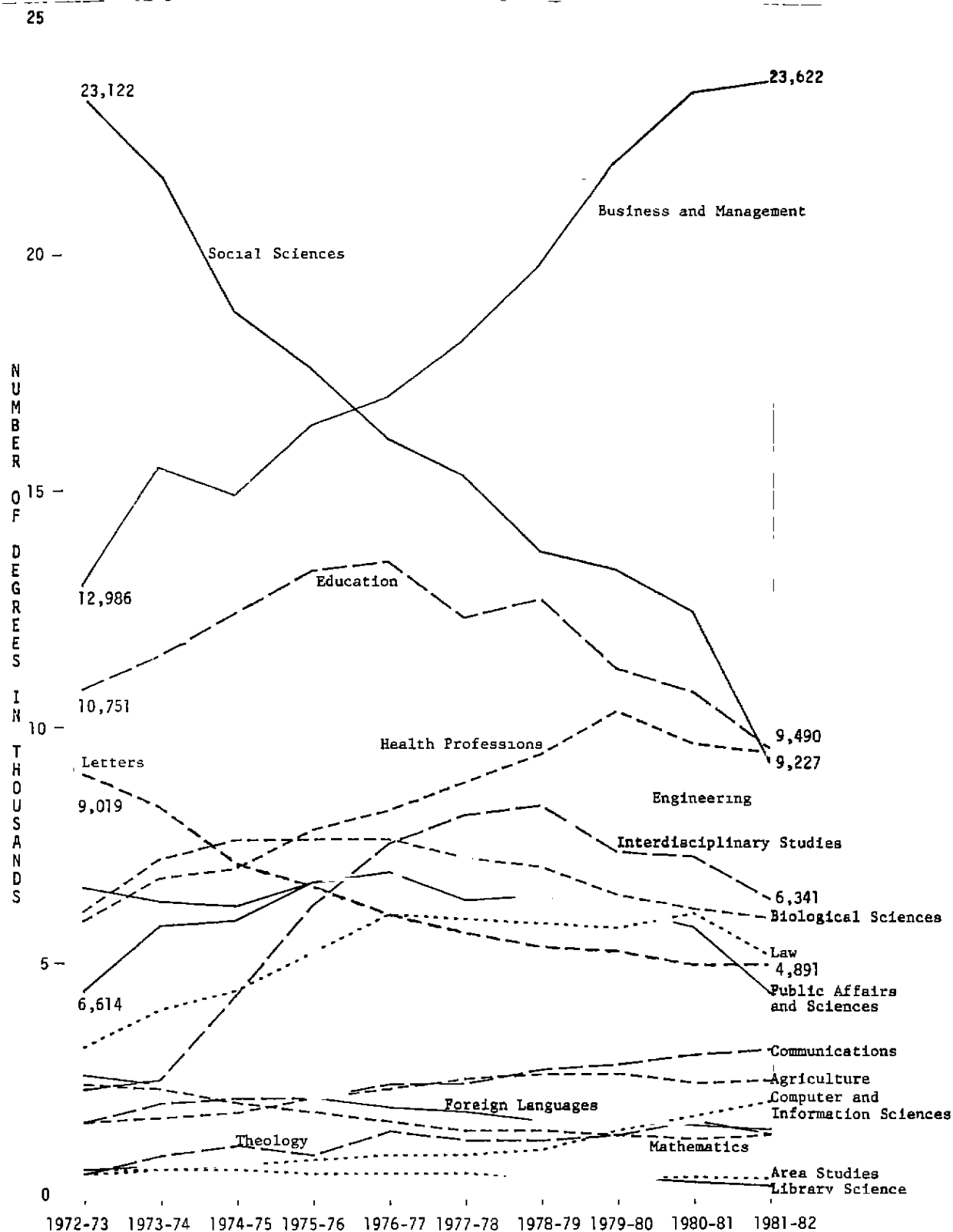
Fall 1983 enrollment figures for the Community Colleges and independent colleges are preliminary estimates and should not be used for analytical purposes.

FIGURE 8 Percent of California's Residents Aged Eighteen and Over Enrolled in California's Four Degree-Granting Segments of Postsecondary Education, Fall 1973 Through Fall 1982



Source: California Postsecondary Education Commission

FIGURE 10 *Number of Bachelor's and Higher Degrees Awarded in Eighteen Fields of Study, 1972-73 Through 1981-82*



Source California Postsecondary Education Commission Information Digests and data files

- An increase in State-funded student financial aid of \$41 million, including \$9 million for State grant programs, \$15 million (appropriated in the AB 1XX provisions for 1984-85) to offset recently authorized Community College fees, and \$17 million to replace -- or begin to replace -- student fee support of financial aid in the University and State University;
- An increase of \$337 million for the University. The 1984-85 total of \$1.4 billion is 30.3 percent over the 1983-84 funding of \$1.1 billion;
- An increase of \$201 million for the State University. The 1984-85 total of \$1.15 billion is 21.2 percent over 1983-84 funding of \$948 million; and
- An increase of between \$75 and \$95 million (5.3 to 7.5 percent) for Community College apportionments. Because of changes made in 1983-84 funding which affects the original Governor's Budget proposals for 1984-85, the actual funding commitment for next year is not clear. All of the new support is funded from new student fee revenues and additional property tax revenues, not from State General Funds.

The increased funding levels proposed for 1984-85 are the most obvious cause for optimism. But other aspects are equally important:

First, the budget offers both the time and the opportunity for thoughtful attention to critical educational policy issues that could not be addressed in the turmoil of past fiscal stress.

Second, the 1984-85 budget refers to multi-stage, multi-year funding no less than eight times. It identifies several fiscal issues that must be addressed not only in 1984-85 but in a longer-term context of planning and implementation of those plans.

This budget recognizes the incremental nature of the budget process and implies an evolutionary planning process in higher education. During legislative deliberations, consideration of this year's budget within the context of recent fiscal limitations and projected necessary restorations will be critical. The major theme of the 1984-85 Governor's Budget is its attempt to reinstate and then continue budgeting policies, processes, and levels that are inseparable from institutional excellence.

As specific proposals are discussed in the following sections, that major theme will regularly appear. And, because we need not dwell on the tradeoffs required under fiscal stringency, we can place the 1984-85 proposals into a more congenial context: that of the three overarching State goals for California postsecondary education: (1) access, (2) educational quality and effectiveness, and (3) managerial accountability and responsibility.

ACCESS

The Commission's most recent five-year plan defines the State goal of access as:

Sufficient institutions, faculty, and programs to allow every qualified California resident to participate in the type of undergraduate education beyond high school for which he or she is qualified, without restrictions due to sex, ethnicity, socio-economic level, or cultural background.

Access has many facets, and it is well to remember that the State has followed six major routes to achieve present high levels of access:

1. building campuses within commuting distance of most students;
2. charging no or low fees and no tuition;
3. maintaining open admission to the Community Colleges with an opportunity to transfer after successfully completing two years of lower-division work;
4. controlling the size of the lower-division enrollment in four-year institutions to reserve space for Community College transfers;
5. offering aid to a limited number of the best qualified students with financial need, and, more recently, offsetting the impact of new increases for all students with financial need; and
6. encouraging the participation of those who have been historically under-represented in colleges and universities.

The 1984-85 Governor's Budget continues the State's commitment to access in four major areas: enrollment growth, affirmative action, student financial aid, and student fees.

Enrollment Growth

California's colleges and universities are still growing, and the Governor's Budget recognizes the costs of growth. The 1984-85 budget continues to provide full support for projected undergraduate growth at the University and State University as it has done since Proposition 13. Enrollment growth in the University is projected at 2.1 percent while enrollments at the State University remain virtually unchanged.

For Community Colleges, the recent fee and funding legislation allows restoration of enrollments to the 1982-83 level, or what would amount to a 9 percent increase over current enrollment levels. In comparison, SB 851, the

current Community College financing legislation, would have allowed enrollments to increase 2.3 percent over 1982-83 levels in 1983-84, and an additional 2.2 percent in 1984-85.

The importance of a continuing commitment to access for undergraduate education is underscored by increasing participation rates. Although the 18-24 year-old population peaked in 1982, total California enrollments have actually increased over the last six years. Demographic changes are but one of many factors that determine overall enrollment levels.

Student Affirmative Action

Since the early 1970s, the State has committed itself to expansion of access for members of groups historically underrepresented in college. State-funded programs reached out to attract those who might not have enrolled on their own initiative. These efforts continue in the 1984-85 budget:

- State funding for the State University Educational Opportunity Program (EOP) is increased to \$16 million in the 1984-85 budget from \$2.4 million at its inception in 1969;
- The Community College program, Educational Opportunity Programs and Services (EOPS) is increased to \$25.7 million which includes a 3 percent cost-of-living adjustment in 1984-85. This compares to \$3 million at its inception in 1969; and
- In the University, for the first time, State funding (\$5.5 million) is proposed for the Educational Opportunity Program's financial aid component. And full State funding (\$1.5 million) will replace student fee support of part of the University's Student Affirmative Action program. In addition, \$500,000 is proposed for Graduate and Professional Student Affirmative Action in the University.

The importance of affirmative action continues. The ethnic mix in our elementary and secondary schools gives adequate warning that similar diversity must be found in the colleges and universities. There are great opportunities ahead, but they will be realized only if the challenges of assuring that diversity are recognized and met.

Student Financial Aid

Since 1980-81, State support for the Student Aid Commission's grant programs declined from \$99.6 million to \$94.5 million, or more than 5 percent. During the same period, student fees at the University and State University increased by 79 percent and 216 percent, respectively. The median fees and tuition at the independent colleges with Cal Grant recipients rose over 20 percent. For those four years, the State actually reduced its commitments to the Student Aid Commission's need-based grant programs. With legislation last year and with 1984-85 budget proposals, the State's commitment is renewed:

- More than \$9 million is provided to increase the number of grants and size of awards in the Student Aid Commission's grant programs;
- As noted in the discussion of affirmative action, the State is assuming some \$17 million in support of financial aid programs in the University and State University, heretofore funded by student fees; and
- The new mandatory fee in the Community Colleges is accompanied by \$15 million in financial aid to offset the fee for students with financial need.

Despite this turn-around in dollar support, State financial aid policy remains unclear. Past understandings about funding levels and priorities have been confused by fundamental changes in the fee structure of the public systems and in federal financial aid policies as well. Clear bipartisan agreement exists that State-funded financial aid should offset fee increases, but there is little consensus on the precise objectives of State-funded financial aid as a whole. The Postsecondary Education Commission has undertaken a year-long examination of how California students finance their educations and of the impact of student aid programs on this financing. The findings should be a major analytical basis for clarification and development of long-term, comprehensive policy.

Student Fees

The past four years have been ones of unprecedented fiscal stress. During this period, rising student fees at the University and State University have played an increasing role in the State's attempts to avoid budget deficits. Moreover, fees were increased in mid-year in 1981-82 and 1982-83 to avoid year-end deficits. The result: unplanned, precipitous fee increases that have seen the State University's fees more than triple and University fees nearly double since 1980-81.

The Governor's Budget proposes to reduce annual fees in the University by \$70 and in the State University by \$42. In the Community Colleges, on the other hand, legislation anticipates the Governor's Budget by establishing the \$100 annual fee.

Although the proposed fee reductions are a welcome reversal of past trends, they do not reflect consistent State policy. Last year, the Legislature adopted and the Governor signed AB 1251 which established policy for State University fees, but similar policy is lacking for the University. In addition, a sunset clause in the Community College fee legislation means that recent agreements will expire in three years. The 1984-85 budget removes the immediate pressure to formulate consistent, comprehensive policy. Nonetheless, if students are to be protected from unexpected and essentially arbitrary fee increases in the future, development of a rational, statewide fee policy is essential.

EDUCATIONAL QUALITY AND EFFECTIVENESS

The second major State goal is educational quality, effectiveness, or excellence. Access is relatively easy to measure -- it can be judged, for example, by numbers of kinds of students served or by the distribution of student financial aid. Quality and excellence are elusive, for it is far more difficult to determine whether or not a student receives an education that meets the individual's needs and abilities. Educational excellence is defined in the Commission's most recent five-year plan as:

Institutions and programs that provide instruction, research, and public service for California and its residents that are commensurate with the needs of the people of the State and are at least equal to or better than those provided by any other state.

This goal of excellence has the same high priority as access. Achievement of both requires planned interaction of clear expectations, adequate resources, and positive fiscal incentives. The 1984-85 Governor's Budget meets these requirements in its proposals for instructional programs, facilities, and faculty salaries. The substantial proposals for restoring funding for equipment and maintenance will halt erosion of quality arising from past years of fiscal stress. Those budget proposals that can be considered enhancements -- increased support for instructional computing, additional teaching assistants, more technical support for instructional computing -- focus on immediate improvement of educational quality. Over the longer term, the 1984-85 augmentation of faculty salaries and a commitment to maintaining them at levels competitive with salaries at comparable institutions nationally will keep California at the forefront of national higher education.

Instructional Programs

Educational excellence depends heavily on continuing improvements and updating of instruction. Dramatic shifts in student demand for programs in new and emerging technologies must be met without compromising necessary, traditional offerings. To meet these needs, the 1984-85 budget proposes:

- instructional computing support, including increased student access to computers, increased software development, and faculty development in computer literacy (\$9 million);
- increased technical staffing at the State University to support and maintain high technology equipment (\$3.4 million); and
- additional funds for research in microelectronics and individual faculty research at the University to assure continued excellence in basic research (\$2.5 million).

Effective instruction -- particularly in science and high technology -- requires the most up-to-date equipment. In recent years, the State has been

unable to provide funds for such equipment. Some suggest that California has become less attractive to new and developing industry because of this inability. The 1984-85 budget meets the problem for the four-year public segments by allocating \$21.4 million to the University and \$11.9 million to the State University to meet current equipment needs. It also commits support for segmental long-term plans to reduce accumulated backlogs of obsolete equipment. The implications of this commitment will be discussed later.

Facilities

Program improvements and state-of-the-art equipment are of little use if there is no building to house them or if the roof leaks. Facilities maintenance and capital construction have borne the brunt of fiscal stress in recent years: As shown in Figure 6 (page 4), the gap between deferred maintenance needs and State expenditures for this purpose has increased dramatically over the last ten years. By 1983-84, the total accumulated backlog of deferred maintenance at the three public segments totaled \$128 million, with budgeted expenditures of \$12.1 million, an amount inadequate to meet even current needs. The 1984-85 budget begins to redress facilities maintenance and construction problems. It:

- provides increased funding of \$29.1 million for deferred maintenance needs in the University, State University, and Community Colleges,
- allocates \$265 million for planning and construction of 42 new higher education facilities;
- proposes alternative financing for construction of science and high technology facilities through the issuance of State-backed revenue bonds as authorized by SB 1067 (Chapter 1268 Statutes of 1983) last year; and
- earmarks support from the Capital Outlay Fund for Public Higher Education for facilities improvement, updating, and expansion rather than for current facilities related operating costs, proposing that the latter be supported by State General Funds.

Faculty Salaries

Unquestionably a major contribution of the 1984-85 Governor's Budget toward educational effectiveness and quality is the proposed faculty salary increases. As the Commission's Preliminary Report on Faculty Salaries, 1984-85 (December, 1983) shows, average faculty salaries at the University have lagged behind those at comparable institutions in seven of the past eight years. Similarly, the State University's ability to offer competitive salaries has declined sharply since 1982-83. The Governor's Budget makes up the projected 1984-85 average faculty salary lags of 13 percent in the University and 10 percent in the State University. Salary and benefit increases for non-academic staff are comparable to those for all State employees -- up to 10 percent.

No one suggests that faculty ceased to meet their teaching and research responsibilities when their salaries became non-competitive. But the threats to continuing quality were clear. Existing salaries were simply inadequate to attract new faculty members to California's benign, but expensive, climate. Nor were they sufficient to retain faculty courted by aggressive campuses in other states. Immediate salary pressures are relieved by the Governor's Budget proposals. Equally important, renewed reliance on faculty salary determination by use of comparison institutions holds promise that parity will be maintained in the future. It also addresses the morale problem stemming from years of freezes and salary erosion and assures the faculty that the work of teaching and learning is considered important and essential.

Community Colleges Funding

Educational excellence has many dimensions. The difficulties of defining it in the four-year institutions are drastically compounded in the Community Colleges, given their diverse functions, services, and clientele. You need no review of the difficult battle over Community College finance which abated somewhat with the passage of AB 470 and AB 1XX. But we all must be aware that the substantive issue of adequate funding for this segment is long-standing: it did not begin in 1983, nor has it been resolved in 1984. In the past decade, no fewer than seven major legislative revisions have been made in Community College financing. Despite these attempts to address funding equity and adequacy, the intractable problem of stable and equitable funding of the Community Colleges remains unresolved.

Over the past five years, the Community Colleges have lost 13.2 percent of total apportionments as measured in constant dollars and roughly twice that percentage in terms of their purchasing power per student (per ADA). Since 1981-82, funding for the colleges has actually been reduced in real dollars. This has meant fewer courses and sections, the turning away of students, and delays in the completion of programs for many students. Community Colleges have been required to perform their missions with reduced funding, and this budget does not reverse that trend. According to the Legislative Analyst, authorized expenditures for the Community Colleges in 1984-85 under the current financing mechanism (SB 851 as modified by AB 1XX) would be \$1.533 billion. Because expected revenues from student fees are lower than anticipated by the Governor, the 1984-85 Budget, as currently modified by AB 1XX, would provide \$1.487 billion, \$35 million more than was received in 1981-82. This funding level would allow only a 4.7 cost-of-living adjustment (compared to the statutory level estimated at 5.9 percent) and no enrollment growth above 1982-83 levels, even though SB 851, adopted by the Legislature and signed by the Governor last year, would allow an estimated 2.2 percent.

Many questions have been raised about Community College role and mission, relative State and local responsibilities, and alternative funding mechanisms to achieve institutional objectives. Although satisfactory answers to these and related questions are required before long-range budgetary decisions can be made, only immediate action to provide adequate funding in this year's budget can prevent further damage to the quality and accessibility of Community College programs. Selective thoughtful action by the Legislature and the Governor will be necessary in this budget year to halt this erosion, and in subsequent budgets to restore the colleges' vitality.

MANAGEMENT RESPONSIBILITY AND ACCOUNTABILITY

The third and final State goal, management responsibility, is defined in the Commission's most recent five-year plan as:

Fiscal and programmatic management that encourages individual, institutional, segmental, and State accountability and initiative to facilitate access and promote excellence.

This goal directly supports the institutional missions of instruction, research, and public service. Good management increases the chances of achieving the primary State goals of access and excellence. The past several years of fiscal stress undoubtedly sharpened particular management skills, but at the expense of narrowing their scope. The premium placed on immediate reactions to recurring fiscal crises left little time or energy for anything else. Lack of even marginal fiscal flexibility inhibited constructive change. An improved economy and the increased funding levels proposed in the 1984-85 budget now allow managerial attention to shift from narrow issues of survival to broader aspects of good management. The Governor's Budget indicates two highly desirable directions.

Flexibility. The 1984-85 budget allows any General Fund savings generated by the State University and the University in 1983-84 to be carried forward to 1984-85. Such savings must be used for deferred maintenance, special repairs, and instructional equipment. This proposal provides a substantial increase in flexibility and a real incentive for good management. If responsibly exercised, this authority should be continued.

Planning. The 1984-85 budget proposes first stage funding for multi-stage, multi-year reduction of backlogs in the two critical areas of instructional equipment and deferred maintenance. I have detailed these provisions earlier. But in addition to their obvious benefit to instructional quality, the provisions suggest -- indeed, require -- realistic segmental and institutional plans. And for the State, they imply the responsibility for predictable funding.

Good management does not automatically follow from increased State funding. To the extent that universities and colleges have learned to reallocate resources during the recent years of fiscal stress, some aspects of management may have improved with lower levels of State support. I do not, of course, recommend such a drastic prescription for better management. But both the State and the segments should remember that reallocation of resources is possible and that it can be as responsible in times of plenty as during the lean years.

CONCLUSION

In closing, I emphasize once again the significance of the Governor's 1984-85 budget as a milestone on the way to a healthy future for our colleges and universities. The budget proposes substantial support for the three major State goals for postsecondary education, and I have detailed the implications of this support for:

- Access, which is enhanced by provisions for enrollment growth, affirmative action, student financial aid, and student fees;
- Excellence, quality, and educational effectiveness, which are supported by competitive faculty salaries, and by new and improved instructional programs and facilities; and
- Managerial responsibility and accountability, which are fostered by increased flexibility and by planned, multi-stage and multi-year funding.

You should note particularly the 1984-85 budget's reliance on planned, multi-stage, multi-year funding for such critical items as instructional equipment and facilities maintenance. These procedural devices stretch scarce resources across a number of years and highlight, through fiscal incentives, the needed long-range planning. Such planned expenditures have implications beyond the scope of the particular areas that are funded, for they assure college and university leaders that the State will respond to -- perhaps demand -- realistic planning. Similarly, the reliance in the Governor's Budget on the comparison institution methodology for determining faculty salary levels offers reassurance that historical and time-tested commitments to achieving excellence are not buried in the debris of past fiscal crises. The exact elements of these particular procedures will vary over time, but the intent of maintaining California's competitive position must be retained.

The 1984-85 Governor's Budget offers good cause for optimism, but there are grounds for caution also. Until it is fairly certain that revenues will permit quality to be maintained over time, we should be wary, for example, of expanding the existing base of personnel. Make no mistake about it, this first year of restored funding cannot undo the damage of the recent past in one fell swoop.

Some degree of caution is required because the State's distribution of resources should be equitable, and definitions of equity may not agree. Equity, in my view, entails recognition of the distinct and differential roles and missions of the segments through funding levels and procedures. Equity rarely is equality. Some examples:

- In 1983-84, the Legislature and the Governor gave highest priority to elementary and secondary education. Equity required that -- despite recognized and pressing needs -- the colleges and universities had to wait their turn for funding;
- In the 1984-85 budget, the funds and percentage increases for faculty salaries in the University and the State University were different, but

equitable in the narrow sense of restoring salaries in each segment to levels competitive with their current comparison institutions.

- In the 1984-85 budget, the documented instructional equipment needs of the University and State University differ, and different but equitable appropriations are proposed.

One swallow does not make a summer, and one year of fiscal plenty does not introduce a millenium of educational excellence and quality. The Governor's Budget does, however, afford both the State and the segments a breathing spell for consideration of the serious educational challenges that have been obscured by the red ink of the past several years. Some of these challenges have been attenuated by fiscal stress, others are only now emerging. All must be addressed. For example:

- Although the details of their proposals differ, both the Commission and the Legislative Analyst have urged rational, statewide student fee policies. The Legislature has adopted a policy for the State University, but extension of this or a similar policy to other segments seems an essential item of business;
- Student financing patterns are changing. Commission data shows an enormous increase in student dependence on borrowed funds. We do not know the implications of this reliance on career choices or for existing student financial aid mechanisms, but the levels of indebtedness are cause for concern.
- The entire State system of student financial aid is in serious need of comprehensive review. There are real doubts about whether existing structures effectively meet the altered level of student fees and new federal financial aid policies;
- Enrollment growth in the University and shifting program demand in the State University require attention. Trends, if any, are not clearly defined, but the immediate implications for the qualified student who cannot be accepted into a program or campus of choice should be systematically examined.
- The demographics of California are changing: Current elementary and secondary school enrollment data show that more than 20 percent of California's Black and Hispanic students drop out before their senior year. Overall attrition between grades 9 and 11 is an alarming 16.3 percent. State policy must assure that heretofore underrepresented groups complete high school and do not meet barriers to continuation in a college or university. Affirmative action remains a continuing priority;
- Student attrition needs attention. General acceptance of "drop-outs" or "stop-outs" may have obscured the reality of attrition. At the State University, for example, only 35 percent of those who enter as freshmen graduate from CSU within six years.
- An ad hoc committee of the Commission is currently exploring the issues surrounding the number of students who transfer from the Community Colleges to a four-year institution. Their conclusions and observations are

expected by June, 1984, and these should provide background for further action;

- Much is said about education for the new technological age, and much is being done. But completion of two years of technical training may, without intent, be terminal for the students concerned. Business and industry are increasingly interested in employees with liberal arts backgrounds. And every student deserves such a background if it is desired;
- Shifts in student demand to technology-related and business fields, as well as the evolution of new fields of study require that considered attention be given to assuring sufficient college and university instructors for the future. Students with baccalaureates in engineering or other high-demand fields may be entering industry for lack of fiscal incentives to continue into graduate school and academic careers. Incentives for them to do so -- for example, stipends, or forgiveness of loan obligations -- may be a desirable option that should be considered;
- In high technology and other high employment fields, regular faculty salaries do not compete effectively with those in business and industry. Business administration faces similar problems. In all fields, faculty recruitment and retention has been impeded by housing costs, noncompetitive equipment and facilities, and perceived lack of public support. For example, a decade ago the University was able to hire 90 percent of its first offer candidates. The 1982-83 success rate was only 72 percent. And about 75 percent of those hired received special incentives. The Commission remains committed to policies that will allow each of the segments to be competitive in the recruitment and retention of faculty.
- Growing interest in the Community Colleges focuses on improvement of quality and effectiveness through assessment, counseling, and guidance of entering students, and improved processes for transfer. This interest should be encouraged and alternative avenues explored.

Not all of these educational issues have direct budgetary implications. But all require attention now that the Governor's 1984-85 Budget relieves the immediate problems of fiscal stress. College and university response to the breathing spell afforded should take the form of realistic economic and fiscal plans that recognize emerging social trends and reach out to anticipate them. Planning does not have a good name. In bad years, the best of plans have been frustrated by financial crises. In good times, there is sometimes a reluctance to plan because the setting of priorities may limit future alternatives.

The Commission has always been an advocate of planning, and this advocacy is intensified by the 1984-85 budget proposals on equipment replacement and deferred maintenance. The one-time augmentation in this year's budget is in anticipation of multi-year plans to remedy the deficiencies that have arisen from years of inadequate support. It is critical that the segments prepare realistic plans which set priorities and that these plans are made available to the Legislature and the Governor. Their consideration of budget items for which plans have been developed should take place within the context of the expectations that such plans contain.

Academic and fiscal plans must, of course, go beyond the narrow range of equipment and maintenance. Plans must at least encompass the implications of the eleven issues and challenges that I have enumerated above. With the cooperation and advice of segmental leadership and representatives of the Legislature and Governor, the Commission is undertaking an extensive assessment of State needs and resources based on the best available economic and demographic projections. The assessment will be completed by the middle of 1984. It is intended to provide both a context for segmental planning and a background for State consideration of these plans.

In closing, the Governor's Budget does not adequately address the fiscal issues facing Community Colleges. For the four-year segments, the budget is both bold and cautious -- bold in that it proposes dramatic steps to reduce immediate threats to access and quality and reaffirms a high level of State commitment to the University of California and the California State University. The budget is cautious -- appropriately in my view -- in that it emphasizes catch-up, restoration, and improvements of quality rather than expansion of services and programs. It offers the welcome prospect of a respite from the fiscal crises of recent years and the opportunity for the senior segments and the State to address important policy issues that have accumulated.